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Health Savings Accounts: Are HSA's Beneficial from the Employee's View? Are HSA's Beneficial from the Employer's View?

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HEALTH SAVINGS ACCOUNTS: ARE HSA'S BENEFICIAL FROM THE EMPLOYEE'S VIEW? ARE HSA'S BENEFICIAL FROM THE EMPLOYER'S VIEW?

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The healthcare industry is changing; the war against escalating health-care costs is taking a toll on employers. HSAs offer an incentive for the average healthcare consumer to make smarter health decisions. Designed to help individuals save for current and future qualified medical and retiree health expenses on a tax free basis; the idea behind HSAs is to make individuals wiser about spending their money on healthcare and motivate them to shop for the best value.

INTRODUCTION

The constant war against escalating health-care costs is taking a toll on employers. Countless employers are softening the blow by shifting a greater portion of costs onto the employees. In turn, consumer driven health plans are the wave of the future and they are being offered by employers at an increasing rate. Consumerism has not always been the philosophy of the past. By putting the consumers into the driver's seat, they are encouraged to take a bigger role in their treatments in order to make a more effective and efficient system. People need to ask questions about their health care the same way they would if they were purchasing an automobile "Consumerism will change health care, as it has affected every aspect of society," said Aetna Inc. President Ronald Williams (6).

Across the country, a new health care choice is under examination. A Health Savings Account (HSA) is an alternative to traditional health insurance. These new innovative Health Savings Accounts are designed to change the way millions can save to meet their health care needs. They offer a financial incentive for average people to keep themselves healthy and minimize their use of costly services.

HSAs were formed by the "Medicare Prescription Drug, Improvement and Modernization Act of 2003," signed into law by President Bush on December 8, 2003. They are created to aid individuals save for future qualified medical and retiree health expenses on a tax-free basis. "The president believes people should own their coverage," said Doug Badger, a senior advisor to President Bush, adding that the president signed himself up for an HSA in 2004. "The president believes the best way to make health care more affordable is consumer choice," he added. (3).

Essentially, an HSA is a savings product that offers a different way for consumers to pay for their health care. An HSA allows you to pay for current health expenses and save for future qualified medical and retiree health expenses on a tax-free basis. You must be enrolled in a High Deductible Health Plan (HDHP) to be able to take advantage of an HSA. An HDHP normally costs less than what traditional health care coverage costs, so the money that you save on insurance can therefore be put into the Health Savings Account. In addition, an HDHP will cover most of your medical expenses should your expenses exceed the funds you have in your HSA.

A HDHP is often referred to as a "catastrophic" health insurance plan. It is an inexpensive health insurance plan that commonly doesn't pay for the first several thousand dollars of health care expenses (i.e., your "deductible") but will generally cover you after that. An HSA is offered to help you pay for the expenses your plan does not cover. The savings accounts should be used to help pay smaller covered medical expenses until the deductible is met; should the need arise, the high deductible insurance policy takes care of covered medical expenses exceeding the deductible.

"In order to qualify to open an HSA, your HDHP minimum deductible must be at least $1,000 (self-only coverage) or $2,000 (family coverage). The annual out-of-pocket (including deductibles and co-pays) cannot exceed $5,100 (self-only coverage) or $10,200 (family coverage). HDHPs can have first dollar coverage (no deductible) for preventive care and apply higher out-of-pocket limits (and co pays & coinsurance) for non-network services" (17).

As an extra incentive, individuals between ages 55 and 65 are eligible for catch-up contributions. Once reaching age 65, individuals must stop contributing to an HSA. The catch-up contribution limit for 2004 is $500. For instance, if you have self-only coverage, you can contribute up to the amount of your annual health plan deductible plus $500, but not more than $3,100. The catch-up contribution limit increases to $600 in 2005 (15).

With the exception of preventive care, you must meet the annual deductible before the plan pays benefits. Preventive care services are generally paid as first dollar coverage or after a small deductible, or co-payment. As you receive other non-preventive medical care, you must meet the plan deductible before the health plan pays benefits. You may pay your deductible with funds from your HSA or you can choose to pay for your deductible out-of-pocket, allowing your savings to keep on growing.

Under most high deductible health plans, doctor visits and prescription drug expenses are "covered," they are just not reimbursable until such point as the deductible is satisfied for the year. Only covered expenses build up toward the deductible it's important to know what expenses are actually covered under your insurance contract.

Additional covered expenses normally include the same covered expenses you would expect to be covered under a high-quality comprehensive major medical policy, including but not limited to, physician's services in and out of the hospital, diagnostic testing in and out of the hospital, hospital charges, surgical expenses, transplants, etc. Naturally, exclusions and limitations apply. For example, dental and vision expenses are typically not covered under the insurance policy. However, they are allowable expenses for tax-free withdrawals from an HSA (2).

The idea of an HSA is for you to own and control your own money. Basically, if consumers had to pay more of their health care expenses out of their own pockets, they would make better choices. The hope is that HSAs will put a lid on increasing health-care costs while still shielding users against catastrophic medical problems (10).

Decisions on how to spend the money are made by you without relying on a third party or a health insurer. You also make individual decisions as to what types of investments to make with the money in the account in order to make it grow. You may sign up for HSAs at banks, credit unions, insurance companies and other approved companies. Employers may also set up a plan for employees as well.

Any individual under age 65, who is covered by a high-deductible health plan, may establish an HSA. Funds contributed to an HSA belong to individuals and are completely portable. Every year the money not spent would stay in the account and gain interest tax-free, just like an IRA. Unused amounts remain available for later years, unlike amounts in Flexible Spending Arrangements that are forfeited to the employer if they are not used by the end of the year (14).

RESEARCH QUESTION

Health Savings Accounts: Are HSAs beneficial from the employee's view and Are HSAs beneficial from the employer's view?

It is important to look at both the employee's view and employer's view when you are exploring healthcare options. The cost of healthcare is skyrocketing and employers are looking to shift the burden of cost to the employees. First, I will look at some literature focusing on the healthcare economics behind HSAs. With high deductibles on the rise, HSAs at least offer an incentive for the employee. For employers, the attraction lies in higher deductibles and lower insurance expenses. Employees have the option to invest wisely build and up a tax-free nest egg they can use for routine care, elective surgery or retirement (25).

Cost is not the sole factor, while examining HSAs; other factors also come into play. I will examine the employer's perspective, the potential benefits, the potential problems and what has to happen for these benefits to be realized along with looking at the likelihood that these benefits will be realized. The National Underwriter suggests to not to let the excitement surrounding HSAs cause you to make rushed decisions. They suggest taking your overall business development strategy into account when analyzing HSAs and other options (26).

Then, I will look at the employee's perspective, the potential benefits and the potential problems. HSAs offer a tax free incentive for employees along with portability and rollover features. Although HSAs seem attractive on paper, I would like to see if they will be beneficial to everyone. If they are not universally beneficial, I am interested to see what categories of people they positively and negatively impact.

LITERATURE REVIEW

Healthcare Economics

Healthcare gurus feel that applying market principles to individual health care decision makes the system more efficient. In turn, a movement from employer-based to individually owned insurance, combined with a national market for it, could have a revolutionary effect. Numerous lives would be improved if individuals no longer needed to fear moving or switching jobs for fear of losing their insurance. In addition, a massive pull on the efficient allocation of resources in the overall economy would be removed.

Dr. William West, a practicing gynecologist in Reading, Pa., and co-founder of First HSA, a national health savings account administration company states that "There is such a disconnect between patients, doctors, and the cost of medicine. A patient has no idea if a drug costs $20 or ten cents a tablet, and the way the system is set up today, doctors have no reason to explain the difference. An HSA ties everything together. I'm convinced they are going to replace traditional medical insurance in the years to come."

He firmly believes that when individuals pay for office visits and prescription drugs from accounts they fund themselves, they are less likely to run to the doctor for every minor ailment and more likely to ask about cheaper generics. Dr. West is confident that HSAs are the new way of health insurance. "When I was in medical school, we were taught 'history, physical, and then tests' when it came to evaluating a patient," he says. "Today, technology and the fear of getting sued have forced doctors to order tests before they even see a patient. When you sit down with a person and explain the options, the costs, and whether a test is really necessary, you're making the decisions together. That's the best way to make an informed decision about your health" (5)

Although HSAs are still relatively new, Doug Badger, a senior advisor to President Bush, said the White House believes they will play an important role in the industry. "We think Health Savings Accounts are going to revolutionize the market," he said, adding there has been a "real shift in the market," since the accounts debuted last year and that the administration expects to see significant growth for HSAs in the small group market and among large employers over the next two to three years (3).

In 2004, America spent about 45% of its government health care dollars on Medicare, Medicaid and the Veterans Administration. The majority of health spending that remains in the private sector is an exaggeration from what a real free market should look like. This is due to the fact that most Americans acquire their health coverage from their employers, a remnant of World War II when companies got around wage and price controls by offering it as a tax-free benefit. That tax exemption has created a system that is on shaky grounds.

The basis of this problem is that most of us do not really have health "insurance" in the sense of protection against high and unexpected expenses. Instead, our tax subsidized policies are often a form of prepayment for such predictable and routine events as an annual physical. With five of every six health care dollars paid by third parties, patients have little or no incentive to make cost-conscious decisions and neither do physicians, particularly since our unrestrained tort system places them in jeopardy of getting sued if they fail to prescribe every conceivable test. Doctors carry out an estimated $50 billion worth of "defensive" medicine every year (16).

American manufacturers are losing their ability to compete in the global marketplace in large measure due to the overwhelming burden of health care costs, General Motors Corp. chairman and chief executive G. Richard Wagoner Jr. said in February 2005 as he called on corporate and government leaders to find "some serious medicine" for the nation's ailing health system. Wagoner said he intends to press his case personally in Washington and with the nation's governors (7).

"GM and the United Auto Workers didn't cause this double-digit inflation in health care," he said. And if GM pushed for sharp reductions in health benefits, the powerful union would likely strike and send the company into Chapter 11 bankruptcy protection, he predicted. "The cost of health care in the U.S. is making American businesses extremely uncompetitive versus our global counterparts," he said. "In the U.S., health care costs have been rising at double- digit rates for many years. In 2003, they were about 15 percent of GDP, at least 30 percent higher than the next-most-expensive country." (7).

Two existing inefficient features of the current health-care system that HSAs will help cure are high administrative costs and lack of consumer incentives to use health care economically. Each of these issues are a result of the tax code, which, before HSAs, taxed health care paid for by consumers but not that paid for by employers. The result has been a third-party payment system under which the person receiving the care commonly pays only a small share of the bill.

The initial setback with the current healthcare structure is the high administrative costs associated with having insurance companies scrutinize and reimburse routine expenses. Doctors who want to avoid insurance industry red tape pay, on average, 8% of revenue to outsource this function to a billing company. Even if insurance companies spend only a quarter of the amount doctors do on their reimbursement bureaucracies, more than 10% of the cost of a visit to the doctor is exhausted on paperwork. Most of these costs would disappear if patients paid for their doctor visits directly (with a debit card, for example), which would be the case for most consumers who choose high-deductible plans with a health savings account.

Essentially, HSAs will save money by making the patient a consumer. Health care is the only sector in the economy where there is almost no price transparency or consumer price competition. A majority of patients give no thought as to how much medical procedures, tests, doctor visits or even prescription drugs actually cost. In most cases, workers who are covered by employer plans only pay their usually small co-pay, therefore having little incentive to keep costs down.

Mr. Laperriere, a managing director of the ISI Group's policy research team in Washington, feels HSAs present patients with an entirely different set of incentives. For example, if a consumer has a $3,000 deductible and can keep what he doesn't spend, he will shop around for a less expensive pharmacy, move more quickly to generic or lower priced brand-name drugs, question whether lab tests are necessary and avoid costly emergency room visits for relatively minor ailments. In short, wherever possible, the consumer will demand to know how much things cost, look for the best value, and avoid unnecessary expenses.

Critics say this is a free-market fantasy. They say HSAs will benefit the healthy and the wealthy without reducing costs, and may even increase the number of the uninsured. The early evidence doesn't support the critics. eHealthInsurance reports that a third of HSA policies sold through its Web site have been to the previously uninsured, so they seem to be reducing the number of the uninsured (24).

Evidence suggests HSAs will indeed aid in controlling health-care costs. Aetna recently developed a consumer-driven health plan named HealthFund which incorporated incentives similar to HSAs. They found, that in 2003, costs in the consumer-driven plan went up 3.7% compared to a 16.2% increase for a similar patient population in traditional insurance plans. Consumers in Aetna's HealthFund used the emergency room less, switched relatively swiftly to generic drugs, and took greater ownership of their own health care by researching prices and medical information using Aetna's Web-based resources (20).

HSAs let consumers choose how to spend their own health-care dollars. Ever since most first-dollar expenses have been paid for by a third party (insurance companies), medical expenses have soared. We believe that individual consumers are better able to decide how and where to spend their health-care dollars than are insurance companies. People who buy medical services using their personal HSA funds will shop around for the best value for their dollars, and health care providers will feel pressure to charge competitive rates to attract patients. In other words, doctors will shift their focus from serving the insurance companies back to serving their patients.

Our previous system has led to a population that has the highest rates of diabetes, heart disease, and other degenerative diseases in the world. By making many preventative expenses eligible for coverage through HSA accounts, and by letting people keep any money they don't use, HSAs provide a powerful incentive for people to take a more proactive approach to their own healthcare.

Only by giving individuals the freedom to make their own choices can we as a society learn of the best solutions. By allowing the use of HSA funds to pay for alternative, holistic, and preventative treatments, innovation and investment will be encouraged in areas where the current system has failed to find solutions. The end result should be a healthier populace with access to a wide choice of treatment options (16).

The negative effects that HSAs may have on the market are that some people who are in need of care may refuse treatment in order to keep the money saved up in their HSA. For example, a woman suffering from severe chest pains may not seek the treatment or tests that she would have sought if she were under an employer controlled plan with no deductibles. Unfortunately, she is taking a huge risk by not getting checked out and she may or may not have the early signs of a heart attack. The positive effects on the market are that HSA's will help costs go down by controlling unnecessary costs. For instance, a woman with a stuffy nose may be more likely to purchase a nasal decongestant from the drug store than make a sick visit at her local Urgent Care facility.

Employer Benefits

Approximately 25 million Americans do not have health insurance. However, the recent addition of HSAs allows employers to support their employees by providing an accessible and affordable means for medical care as well as to lure desirable employees by offering competitive benefits.

As James Claffey, President of Benefits Unlimited in Cranston, RI sees things, consumer driven health plans can potentially save a lot of money by changing those people's health care spending habits, and also reward the light users (9).

Contributions into the account may be made by either the employer or the employee, or both. The funds cover medical expenses not reimbursed by a high-deductible health plan (HDHP). Additionally, money in the account does not "clear" at the end of each year, as funds in an FSA typically do. HSAs offer an incentive for the employee to do away with frivolous medical expenses.

HSAs are financially beneficial to employers. All employers need to do is provide are low cost high deductible heath plans. It is only voluntary that employers contribute to the employee deductible (22).

It can be difficult for small businesses to offer insurance to employees. However, the combination of an HDHP and an HSA lowers the insurance rates for an employer, allowing small businesses to fit health insurance into their budgets.

Generally, premium payments for high deductible health plans cost the employer less money. HSAs offer small business owners the opportunity to provide an attractive tax-savings component to go along with their high deductible health plan. The savings the employer realizes from the reduced premiums may be contributed by the employer to an employee's HSA, helping to offset the increased deductible. HSAs can be used as a recruiting technique for the middle of the road individuals that are looking to maximize their out of pocket dollars (23).

Employer Realization

As of 2004, few employers introduced HSAs. Observers say that the slow uptake was tied to lack of awareness and the lack of government guidance on the accounts. Guidance was not published until mid-2004, when many large employers had already locked in their benefit plans for the following year.

"Employers have been taking a wait-and-see attitude, waiting for this guidance," explains Mark Hamelburg, an attorney with the Washington Resource Group of Mercer Human Resource Consulting. "The government's intent was to try to get as many significant issues in one package as they could, and hopefully this provides sufficient guidance so employers can now go forward, if they wish." (14).

Due to their newness, "they don't want to be the first ones on the block," said Rob Corrigan, director, product management, at Downers Grove, Ill.-based First Health Group Corp., a managed care company. "They want to see how this really works out and get some sense of the issues" and what the experience is going to be, he said (12).

On July 23, 2004 the Treasury Department and the IRS issued comprehensive, and long-awaited, guidance on health savings accounts. This guidance answered questions covering a broad range of rules for both the employee savings accounts and their accompanying high-deductible health insurance plans. This assistance is projected to overcome uncertainty that has prevented some employers from offering an HSA option to their employees.

"We are particularly encouraged that Treasury and IRS continue to act quickly to resolve key questions about how these plans can be structured and managed," says Paul W. Dennett, vice president of the American Benefits Council, a national association of benefit plan sponsors and administrators. He adds that the new guidance "provides needed answers to many of the priority issues employers have asked the agency to clarify as they decide whether to offer HSAs to their employees." (13).

Among the items clarified by the guidance are the following:

- •Benefits under employee assistance plans, disease management plans and wellness programs generally do not disqualify an otherwise eligible individual from contributing to an HSA.
- •Mistaken distributions from an HSA can be repaid to an HSA without penalty or tax.
- Generally, the flexible spending account (FSA)-type salary reduction rules do not apply to HSA salary reduction contributions, which generally follow the more flexible 401(k) type rules that allow changes in elections throughout the year as long as any election is effective prospectively).
- Payments by individuals due to traditional benefit limits that are part of reasonable plan designs do not count against the out-of-pocket maximums.
- Employer matching contributions made through a cafeteria plan are not subject to the comparability requirements.
- Account fees paid from HSAs are nontaxable distributions; account fees paid outside of the HSA directly to trustees are not treated as contributions.

"Many employers are moving quickly to offer HSAs as an option to employees and there is no question that employer participation in HSAs will have a major impact on how rapidly the market develops," says Dennett.

"I would say that probably 75% of our clients have spent a considerable amount of time getting smart on HSAs," said Ray Herschman, Cleveland-based national practice leader for consumer health strategy at Mercer Human Resource Consulting. "Most are either going to them as a pilot, or are trying to develop a longer-term strategy so they are in a position to offer HSAs," he said (14).

Industry watchers anticipate the majority of businesses will use early 2005 to evaluate what the market has to offer and, if they opt to offer HSAs, draft education programs so employees are prepared for open enrollment for 2006 or 2007. Big companies "will watch the dust settle in 2005, then make their move," says Chris Delaney, vice president of marketing at Definity Health, a consumer-driven plan provider.

Company executives do their research and likely look for major insurers such as United Healthcare, Aetna and Cigna and consumer health-care specialists such as Definity Health and Lumenos to continue building awareness for their insurance and HSA products (25).

Once the employer gets more familiar with consumer-driven healthcare and HSAs, they must communicate this idea to their employees. Educational workshops and lunch-ins are highly recommended for HSAs to be well received by the majority of the employee population. Many employees are frightened when they first hear of the high deductible concept, but feel more comfortable once they are educated on the incentive possibilities of putting themselves in the driver's seat.

"Because using the HSA requires a considerable shift from traditional plans like HMOs and PPOs, educating employees is very important." (18).

Employer Problems

There was some "kicking and screaming" when Neenah, Wis.-based Plexus Corp. moved to consumer-driven health care programs two years ago, says corporate benefits manager Sarah Novak. It required a "real shift in mindset for employees, and it's been a difficult one," says Ms. Novak, whose firm introduced a high deductible plan linked to a health savings account in January 2005.

Now, employees at the contract manufacturing firm are coming to her with reports of where they can get lower-priced prescription drugs. They are "starting to be engaged, starting to look at the cost of health care, which I think is really key," said Ms. Novak. That change in mindset is something that many other employers hope to see in their own employees as they also explore HSAs. Although relatively few firms have introduced HSAs so far, there is strong interest in them by employers, and many observers predict they will grow dramatically next year.

Currently, most employers are offering HSAs as an option along with other plans. Otherwise, employees will perceive it as a "take away," said Dan Plante, Chicago-based senior manager for PricewaterhouseCoopers L.L.P. Over time, though, depending in part on how well they perform, "there'll be a migration" into using HSAs on an exclusive basis, he predicted.

It remains uncertain how accepted HSAs will be with employees who have other options. At Aetna, 15% of its employees have enrolled in one of two HSA models introduced in January, which is "pretty good," said Robin Downey, head of product development in Middletown, Conn. Another 64% remain in one of two models of an HRA plan, which Aetna first introduced in January 2002, she said. The company also has an HMO (12).

A number of employers will hesitate to implement an HSA plan because of the additional work and coordination costs associated with switching from their current plan. These employers may feel comfortable in their current plan and without seeing and clear and immediate incentive, they may be reluctant to re-invent the wheel. Rashke of the National Underwriter feels that some employers will worry about the possible elimination of co-pays and other changes to their benefit structures.

Additionally, other employers may come to a decision that setting up a HRA or a section 125 plan is a better way to give employees a stake in holding down health care costs. An important factor to note, Rashke mentions, is that when an employer decides to fund an HSA for each employee, that money now belongs to the employee. If the employee doesn't use it in the first year, he can carry it over to the next. Most importantly, if the employee leaves the company, the money goes with them. This means all of what the employer places towards their employee's HSA deductibles is lost. Since the funds are portable, employer contributories essentially run the risk of the employee taking their money to their next place of employment (26).

In some cases, employers are finding that their contributions to employees' HSAs are wiping out any premium reductions gained by raising deductibles. "Employers shouldn't introduce a high-deductible plan with an HSA alongside a typical PPO and expect to save money," said Helen Darling, president of the Washington-based National Business Group on Health. "If they did everything else the same, except they put in an HSA, they'd spend money," Ms. Darling said. "And if they had 20% enrollment in that HSA, they'd spend a lot of money." While there is no rule of thumb, some benefit experts say that employers should contribute no more than 50% of the deductible to the savings accounts (31).

Additionally, some critics also see a problem in that employers cannot make sure their contributions are being used solely for health care. A current ruling by the Internal Revenue Service says that only the account holder can decide how to use HSA money. That may make some companies reluctant to contribute to HSAs (8).

Under the President Bush's guidance, employers may not restrict employees from using account funds for non-medical expenses, as long as the employee is prepared to pay the related taxes. This is an area in which the new health accounts mirror employee 401(k) retirement accounts. A number of employers had advocated in favor of allowing the imposition of withdrawal restrictions (5).

Employee Benefits

The most obvious benefit that HSAs provide to employees is autonomy over their account and over their own health care costs. Employees with HSAs not only own their account, but they are given the right to choose how the account funds are spent. In addition, debit cards may be provided, allowing users to pay for services directly, bypassing reimbursement delays.

Employees benefit from tax-free growth and the right to take their HSA with them from job to job. A major benefit of HSAs comes into play when you do not need all the money for one year's medical expenses. Then, your HSA becomes a powerful planning tool for retirement and future medical expenses. "It's the triple-whammy of tax planning: tax-free contributions, tax-free earnings and tax-free distributions. There are very few opportunities like that," says Hewitt Associates tax attorney Andy Anderson (10).

The self-employed benefit the most from HSAs, notes JoAnn Laing, author of "The Consumer Guide to HSAs." They get a double benefit because they get to write off as a business cost both the cost of the health insurance premium and the amount they contribute to their HSA each year," Laing says, adding that businesses also benefit, as they can write off the cost of providing catastrophic health insurance for their employees, which already costs less than regular health insurance (19).

"They get a double benefit because they get to write off as a business cost both the cost of the health insurance premium and the amount they contribute to their HSA each year," Laing says, adding that businesses also benefit, as they can write off the cost of providing catastrophic health insurance for their employees, which already costs less than regular health insurance

Plans that feature higher deductibles are offered at lower premiums. This enables you to have more control over comparing all aspects of your care, such as location, quality, convenience, and also cost in the same way you choose other products and services you buy. Most plans include no referrals required for specialty care within network, access to out-of-network care (higher coinsurance applies), a $1,000,000 lifetime maximum and in-network preventive care covered at 100% with no deductibles.

A significant point to keep in mind is that the list of qualified medical expenses is, to a large extent, more comprehensive than most health plans. As a result, expenses incurred for items such as eye glasses, dental work, and fertility treatment qualify as a tax-free withdrawal from an HSA, but may not be covered by a typical health insurance deductible. Additionally, the law stipulates that these expenses can be paid for the benefit of the HSA owner, spouse, or dependents (29).

Premium and Tax Savings

Health Savings Accounts can help you save money on both your insurance premiums, and your income taxes. Due to the fact that HSAs must be paired with a high-deductible health plan, your health insurance premiums are normally much lower than a typical plan that has a $500 deductible. Currently, there are no other investments that offer a tax deduction today along with a tax-deductible withdrawal tomorrow. The savings from the lower premiums along with the tax deductions could be $5,000 or more every year.

"This example is based on the average health insurance premium of an individual with a family of four living in a metropolitan area, covered medical expenses totaling $1,500, and $550 in expenses for dental care, contacts and eyeglasses. Health insurance premiums vary substantially based on age, geographic location and other variables. Federal tax savings calculations assume that contributions are deducted from federal taxes. Withdrawals for nonqualified expenses prior to the age of Medicare eligibility are subject to a 10% penalty by the IRS" (16).

Long-term savings

An appealing feature of HSAs is that they encourage individuals to stay healthy. Any money from your HSA account that is not used to pay medical expenses is yours to keep. The money grows in the account free from federal taxes and remains free from federal tax when you take it out if it is used for qualified medical expenses. There is a 10% penalty if the funds are withdrawn before age 65 for a non-medical expense, but after age 65 they can be withdrawn penalty-free for any reason (you do pay income tax on the money withdrawn).

Savings Chart

	Typical Non-HSA Plan *Individual deductible: $500* *Coinsurance: 80% - 20%*	Typical HSA Plan *Aggregate Family deductible: $5,250* *Coinsurance: 100%*
Premium Paid	- $7,630	- $2,636
Your share of medical expenses ($1,500 claim)	- $700 $500 for deductible, $200 for coinsurance	- $1,500
Non-covered medical expenses	- $550	- $550 (dental and eye wear expenses)
Expenses Subtotal	= - $8,880	= - $4,686
Tax Savings* on HSA Deposits (Assumes a 28%** tax bracket on deposit of $5,250, the maximum contribution allowed with a $5,250 deductible)	+ $0	+ $1,470
Net Expenses (out-of-pocket minus savings)	- $8,880	- $3,216
Total Net Savings with HSA Plan		= +$5,664

Because your unexhausted grow tax-deferred, the investment opportunity is tremendous. Potential return depends upon the interest rate at which your investment grows, and on how much of your deposit is used to pay medical bills. Investments can be placed in savings accounts paying 1 - 4%, or in stocks, bonds, or mutual funds with higher potential returns.

For most Americans, out-of-pocket medical expenses are a relatively small expense each year. This chart featured on the HSA America website shows annual medical expenses for the United States population by percentage:

Long Term Savings Chart

Individual's Savings HSA Growth Over 30 Years. Based on a maximum yearly contribution of $2,650			Family's Savings HSA Growth Over 30 Years. Based on a maximum yearly contribution of $5,250		
Medical Expenses Per Year	4% Annual Return	10% Annual Return	Medical Expenses Per Year	4% Annual Return	10% Annual Return
$0	$149,914	$488,265	$500	$268,944	$875,939
$500	$121,458	$395,585	$1,000	$240,002	$781,676

These savings are based on 4% and 10% interest rates. Your interest rate will fluctuate depending on your investment and the market conditions. There are many companies that can administer your Health Savings Account. Some offer a fixed interest rate, while others allow you to place your investment into a variety of mutual funds (16).

Unlike the funds you put in a flexible spending account, an annual use-it-or-lose-it deal, the money that goes into an USA compounds tax-free over time and is yours to keep. The less you spend, the more you get to keep. There are no taxes to pay when you withdraw the money to use it for health care. After you turn 65, you may do what you want with it (21).

Employee Realization

For the self-employed and uninsured, an HSA may be a no-brainer since it offers affordable access to catastrophic medical coverage with a tax-planning incentive. As long as you buy high-deductible insurance, you can even set up an HSA on your own. The HSA Insider website (hsainsider.com) lists qualified HSA administrators.

If you are fortunate enough to receive employer-sponsored health benefits, deciding whether to go with an HSA may be complicated. In general, if you normally spend little on health care or can afford to pay for what you do out of pocket, HSAs can be a great way to save tax-free for future health costs or retirement. This may be extremely appealing if you have maxed out your 401(k) and IRAs.

Naturally, when you are evaluating health insurance, you want to be certain the doctors and services you use are part of the plan. There are wide variations among providers and plans, and it is always essential to be sure you choose a plan will cover what you need (10).

Employee Problems

HSA opponents worry that some people, particularly low and moderate wage earners, will forgo necessary medical treatment. This may lead to more severe conditions and expensive emergency room visits down the line. Basically, if a person can barely pay their rent and suddenly is responsible for a deductible that is a thousand dollars; they may not be able to afford the care that they need.

Unfortunately, forcing individuals to make payment choices about their health coverage may mean many poorer individuals put off a trip to the doctor, or skimp on important surgeries or check-ups to avoid depleting the funds in their accounts (19).

For the very sick, the plans are less appealing though once the deductible has been met they will get the same coverage as with traditional plans (9).

Stipulations such a high-deductible health plan's pre-certification requirements; limits on lifetime benefits; limits on specific benefits, such as the maximum number of days or visits covered; and limits to "usual, customary and reasonable amounts" can make HSAs seem daunting (13).

Further, your health is unpredictable. You may enroll in an HSA with a HDHP as a moderately healthy individual. Months down the line, you may discover that you have a serious illness. The problem is, when you enroll in an HSA, you are using your current health as a judgment for its attractiveness to you. Your health status at the time you enroll may not be the same six months down the line. If you are not able to plan ahead, you may not have the money put aside to pay the high deductible before you can receive treatment. Some critics of HSAs say that they will attract only the healthiest and wealthiest employees, eventually making health insurance more expensive for others (8).

At first glance, HSAs look appealing to both employees and employers. However, the plan is designed in a way that only benefits those individuals that do not spend all of the money elected into their HSA each year.

HSAs are intended to make consumers more aware of their choices; some see HSAs as a good way for employers to push the rising cost of health care onto those needy individuals.

HSAs are beneficial to those employees that are able to afford the deductible and are normally in decent health. Employees also have to be very selective in the healthcare that they seek in order to save money to be rolled over. Although the high deductible health plan kicks in after the deductible is exhausted, the benefit of an employee having an HSA is null if no money is ever rolled over to save for retirement. Additionally, if an employer does not contribute to the deductible, then the HSAs are only appealing toward high income individuals. Many lower income individuals find it difficult to meet the $1,000 minimum. On a harsher note, low income families must meet the $2,000 deductible before their health plan takes effect. It is very difficult for large low income families to simply provide food and shelter to their families. The though of reaching a large deductible for insurance to become effective is nothing less than frightening for these poor people (22).

One survey shows that HSAs are not appealing to many consumers. A report released in January 2005 by benefits consultants Watson Wyatt Worldwide, based in Washington, shows that of nearly 1,000 individuals with health insurance, 29% said they had heard of HSAs. More than half of those surveyed found the idea of a high deductible "extremely undesirable," and about two-thirds said the same about paying full price for prescription drugs before meeting the deductible (28).

While high deductibles and co-pays make insurance more affordable for businesses, it just shifts the cost and burden to the employees. With a health savings account, you get a tax break, but it's still your dollars. Many people feel that HSAs are just a nice way of pushing all the burden of monitoring health care costs onto the consumer. This is the primary reason why employee education is so important so employees know where they stand when it comes to HSAs.

CONCLUSION

The healthcare industry is inevitably moving towards consumer driven healthcare. Created by the Medicare bill that President Bush signed Dec. 8, 2003, HSAs characterize a key element of consumer-directed health care. HSAs are designed to help individuals save for current and future qualified medical and retiree health expenses without incurring federal income tax and earning federal income tax-exempt interest on the money saved. Unlike the flexible spending account, with its "use it or lose it" rule that forces workers to forfeit funds not spent within a year, any of the unused HSA money stays in the account until spent. The idea behind HSAs is to encourage individuals to be wiser about spending their money on health care and motivate them to shop for the best value. A primary goal is to reduce unnecessary use of health care services.

Some employees like how HSAs work, a majority of individuals liked certain features, such as lower premiums and having control of the funds even after leaving a current employer, although they disliked the risk of higher prescription drug payments and deductibles. For the employee, certain stipulations can make HSAs seem frightening. High-deductible health plan's pre-certification requirements, limits on lifetime benefits, limits on specific benefits and spending amounts are examples of the stipulations.

Critics argue that HSAs shift the cost and burden of health coverage from the employer, where they have traditionally been, to the consumer. In addition, they contend that HSAs deprive employers, unions and other large groups of the influence that would otherwise gain them deep discounts for medical coverage. Further, critics say HSAs are most attractive to moderately healthy people who are less likely to spend all the money in their accounts, providing a tax-free way to save money. Basically, it's those individuals that have the luxury of making health choices that will benefit most from these accounts.

Others argue satisfaction around consumer-driven health plans is at an all-time high. Many health plans are reporting satisfaction levels of anywhere from 70% to more than 90%. In addition, rate increases have dropped significantly. Lumenos' rate increases dropped to 7% last year, compared with the 12% to 13% national average, said Kronenberg. "Once employees use the plans, they often don't want to go back to managed care, where they didn't have control of the money," said Kronenberg. Slightly more than half of the company's members reported having more knowledge in managing their health care after being enrolled in the plans, he said.

Some critics feel that the biggest beneficiary of consumer-driven health care will be the patient. Not only will consumers benefit from lower health-care costs, but HSAs will inevitably shift decision- making away from employers and insurance companies to patients, who will have more control over one of the most important aspects of their live; their own health care (20).

Additionally, healthcare critics claim that the tax benefits are attracting many individuals to the plans. Kim Bellard, vice president of e-marketing and customer relationship management for Highmark, stated that the company initially thought healthier individuals would be drawn to HSAs, but surprisingly believes that more "older, high-worth" individuals may be opting for the plans more because of their tax advantages than the health-care benefits (6).

There is no doubt that there is strong interest in them by employers, and many observers predict they will grow dramatically next year. Next year, there will be an increasing percentage of employers who are interested in some variation of consumer-directed health plans and a number of those will ultimately have HSAs linked to them.

According to a 3,000-employer survey released in the fall by the Kaiser Family Foundation and Health Research and Educational Trust, about 27% of employers say they are "somewhat" or "very" likely to offer HSA-eligible health benefits in the next two years (28).

Most employers that offer HSAs, particularly large firms, offer the accounts as an option within their health care program, but smaller firms are more likely to offer them as a total replacement health plan. Employer funding of the HSA can vary from zero to full funding, with most falling somewhere in between, say observers.

Proponents anticipate that having to pay at least initial medical expenses out of their own HSAs, regardless of who initially funds them, will encourage employees to become more careful health care consumers. But relatively few employers have introduced HSAs. Observers say that the slow uptake is likely because the bulk of needed government guidance on the accounts was not published until mid-2004, when many large employers had already locked in their benefit plans for the following year (12).

Some experts say that not all employers are finding huge bargains. Further, those that are reaping some savings are sharing much of them with employees to encourage enrollment. However, there are ways that employers can structure these plans to make them winning propositions, if not the first year they are offered, then in subsequent years by driving down future claim costs (11)

According to a 2004 survey of health plan costs by Mercer Human Resource Consulting, consumer driven health plans cost an average of $5,233 per employee per year, while preferred provider organizations-the most prevalent plan in today's market-cost an average of $6,095 per employee per year (14). Current data, featured May 4, 2005 in the National Underwriter, shows that enrollment in HSAs has doubled in the past six months. The number of HSAs purchased has increased to 1.03 million from 438,000 in September 2004, according to results of a survey sponsored by America’s health Insurance Plans, Washington (4).

The bottom line is that businesses must gain control of skyrocketing health insurance premiums if they are to continue to offer health insurance as an employee benefit. Qualified HDHPs, coupled with HSA accounts, are one possible solution well worth considering (1).

In conclusion, when the question is asked if HSAs are beneficial from an employers view, the answer is: It depends. The same is true from the employee’s view. Each individual employer and employee has unique circumstances that illustrate the effectiveness of health savings accounts from their view. Many factors play into the employer’s role such as the size and flexibility of the company and the cost savings generated from the plan. Generally, average, middle of the road employees benefit from HSA. The individuals that have the option of making choices when it comes to their healthcare will benefit from HSAs and make an impact on the total market. Hopefully, through education and incentives, HSAs can positively affect the market. Unfortunately, low income or unhealthy individuals will not be attracted to HSAs due to high deductibles and lack of opportunity to enjoy the rollover and portability of the tax free savings. Additionally, the individuals who never visit the doctor will not impact the market.

Consumer-driven plans target people in the middle-the ones who could choose to take generic drugs instead of brand name ones, or avoid the emergency room for all but true emergencies, or not get an MRU when an X-ray will do (9). Consumer driven health plans are the future of healthcare and they are being offered by employers at an increasing rate. Ideally, by putting the consumers into the driver’s seat, they will take a bigger role in their treatments in order to make a more effective and efficient system, essentially keeping health care costs under control.

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